

Villano & Associates, Inc.

Certified Public Accountants

910 Skokie Blvd Suite 211 Northbrook, Illinois 60062-4033 (847) 715-9745 mark@villanocpa.com

Welcome to 2023!

Stimulus Checks, Credits & Appointments

TY 2021 was an extraordinary year. Many of you received stimulus checks and advanced child tax credits courtesy of the US Government. These enhanced your refunds, or at least decreased what you owed the IRS. With no stimulus checks or enhanced child credits available this year, TY 2022 may be disappointing; the easy money is over and you might owe money this time... I know this is a long letter, but there is much to review. Please hold on to it for future reference.

Please make your appointments early. You can call the office 847-715-9745 or email us at villanoinc@gmail.com. Please make sure we have any changes to your address, phone and email. Throughout the year, we try and send emails to keep you informed.

As always, I am grateful to my staff-- Susan Choi, Susan Dziedzic, and my wife Rosalie who staff the office. *We wish you have a healthy, happy 2023!*

Mark

New RMD Rules

There was some good news from the IRS in 2022. The Consolidated Appropriations Act of 2023 signed into law on 12/30/22 *increased the mandatory age for taking a Required Minimum Distribution (RMD) from age 72 to age 73, effective 1/1/2023 if you have not already started your RMDs. RMD distribution age will increase to 75 in 2032.* This is a big deal for anyone who has not started taking RMDs. *This means you do not have to take money out of your retirement account at age 72.* It allows you to continue to build retirement assets. Of course if you need to use retirement money, take out what you need regardless of the age the IRS determines you should. This change allows **you** to make the decision that's right for you.

What about Inherited IRAs?

Last year I received more questions on RMDs for inherited retirement accounts than almost any other question. If you inherited a retirement account in the last few years (except as a

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non-spouse or minor child), you've been whipsawed between a 5 year and a 10 year payout. First, we were told that you could take any distribution amount you wanted as long as the entire amount is distributed by the 10th year. It didn't sound right to me- how was the IRS going to keep track of all those irregular payments? Final regulations were finally issued which clarified the payout. *Starting in 2022, you have to take distributions on a regular RMD schedule. The balance is due in the tenth year. 2020 and 2021 were exempted from taking RMDs.*

Child Tax Credits, Charitable Giving and Deductions

As I mentioned above, *the big child tax credits have reverted back to pre-2021 rules- the \$3,000 per child tax credit is gone. Also, one of my favorites, the \$300 / \$600 charitable front page deduction was not renewed.* Many of you received a call or email from me last year with "One More Question" about charitable giving. *For contributions of \$250 or more, please remember to get a letter on letterhead showing the amount you gave and their tax-free status, and these magic words: "No gift or services were received as a result of this donation."*

Another positive: teachers can get a \$300 front page deduction for non-reimbursed supplies they've purchased. I'll need your license # to make it official.

Standard deductions have more than doubled since 2017, and most people do not itemize any more. But some do. *For those who do itemize, annual tax deduction cash limits are 60% of Adjusted Gross Income (AGI) for public charities, including donor-advised funds. Gifts of non-cash assets are limited to 30% of AGI if held more than one year. Excess contributions can be carried over for 5 tax years.*

Deductions for home mortgage insurance premiums on Schedule A are no longer deductible. This won't affect you if you use a standard deduction. Also, for those who own racehorses, we'll all be "sad" that shorter depreciation lives for young racehorses have been phased out! (my feeble attempt at humor.)

How about an Electric Car?

There is good news if you're in the market for an electric vehicle. *There are some huge tax credits for purchasing and taking delivery of an electric vehicle in 2023.* Also, Tesla just dropped prices. The credit requires production or assembly in North America and there is a

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cap on suggested retail price of \$55,000 for sedans and \$80,000 for vans, SUVs and pick-ups. You can check the model and car you are interested in online to see the associated tax credit. Eligibility rules are complex. There is a \$150,000 cap on individual Adjusted Gross Income (\$300,000 for joint filers) for the year of use (2023, not 2022). Read more here:

Vehicle eligibility: <https://www.fueleconomy.gov/feg/taxevb.shtml>.

Your eligibility: <https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after>

New Gift Tax Limits

The 2023 gift limit before a Gift Tax return is due is \$17,000, up from \$16,000 in 2022 due to the high level of inflation.

Reporting On-Line Sales

Tired of waiting for Congress to act, the IRS voluntarily delayed reporting sales of \$600 or more from online platform sales such as Etsy and eBay until 2024. *This delay means you will not receive a 1099-K from e-commerce platform sales this tax season.* (Recall that e-commerce platforms were to send 1099-K tax forms to all users with as little as \$600 in sales.) Most importantly, the delay gives lawmakers more time to raise the revenue threshold. There are two sides to this issue:

1. The IRS rightly believes that upwards of \$500 Billion dollars in income are unreported by the cash economy.
2. On the other hand, taxpayers may sell items not knowing their cost basis, or the tax implications of a simple online sales transaction.

As a taxpayer, I want everyone to pay their fair share. As a tax preparer, I know how difficult it is to be compliant.

The High Cost of Dealing with the IRS

In the recently passed Inflation Reduction Act, the IRS will receive an additional 80 billion dollars over the next ten years. *The money is to be spent on modernizing the IRS's computer systems, replacing and hiring new agents, enforcement, and customer service.* Between 30 to 40 thousand IRS agents (almost 50 % of all IRS employees) will be retiring over the next five years, so it is imperative to start the replacement process now. Anyone who has tried calling

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the IRS knows how futile this has become. *It takes me between 40 and 60 calls before I am put on hold for another hour.* That's assuming my call is not dropped, and I have to start over.

Very few callers actually got through to an IRS agent in 2022. It would be a relief to have my call picked up promptly and answered by a knowledgeable IRS employee. And it will be a relief for all the millions of taxpayers who become frustrated and give up- paying a notice that might be abated. The best thing is that increased enforcement on higher earning taxpayers will fund the entire program. So put away your fears that Aunt Nellie's tax return is going to be audited, or that IRS agents will be hiding in your kitchen cabinets. *This is an upgrade and will help regular taxpayers (and tax preparers).*

Improvement is coming! The first 4,000 agents in customer service - answering the phone, have already been hired and are expected to be functional this summer.(An additional 1,000 customer service hires will follow.)

Tax Notices and Refund Delays

First of all, I haven't been involved in a face to face IRS audit in ten years. Most Notices come as a result of IRS computer generated matching programs, where the IRS matches item-for-item all of your reported income and deductions to what has been reported to them by your banks, brokerage houses, pension custodians, mortgage brokers, and others. *The most important thing to remember is that an IRS Notice has to be addressed; it cannot be ignored; they do not go away by themselves. In the end, it could cost dearly to ignore notices.*

In 2022, the IRS sent millions of notices to taxpayers and it took them more than 6 months to respond. That is more than double the response time from 2019. Patience is required.

Talking about delays-- *What about filing paper returns?* Because of "paper processing delays," *refunds for paper processed returns were delayed by six months or longer.* source: IRS, National

Taxpayer Advocate 2022 Annual Report to Congress, 1/11/23.

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So, What's the IRS Playbook?

Say you just received a Notice from the IRS. After asking yourself, “*Is English their first language?*” Your next question is “*What do they want?*” This may not be obvious at 1st, 2nd or even 3rd glance. **Send a copy of every Notice to me.**

With luck, *a simple letter that I prepare, signed by you and sent by certified mail, will clear up the reason for the notice.* Some situations require providing me a Power of Attorney (POA, Form 2848, or Form IL-2848.) This allows me to communicate on your behalf directly with the IRS or IDOR (Illinois Department of Revenue), and for them to communicate directly with me for a specific type of tax and only for a specific time period. Once you sign the POA, I send it electronically to the IRS through a special portal. It takes 1 to 2 weeks for the IRS to acknowledge receipt of the POA.

While waiting for the IRS to acknowledge receipt, I am gathering information from our files or asking you to provide additional information. If I feel like I need additional insight, *I will go to a secure IRS website and request all of the financial information the IRS has on file for you and read it carefully.* If I need to request additional time or information, you guessed it -- *I will call the IRS* (see The High Cost of Dealing with the IRS above). All this takes extreme patience and time- from gathering information, to reading transcripts, crafting a response letter, and spending lots of time on the phone. Once we’ve done our part, then we wait for the IRS to respond. And that can take a long time....

Illinois (and other states) Hold the Cards

Illinois and many other states are a partner to your federal tax notices. The IRS and Illinois share information through what is known as the FED/State exchange. *When either sends out a tax notice, they send it to the other entity as well.* If you lose a federal dispute, expect to be hearing from Illinois as well. Illinois has another advantage. *By state law, Illinois requires you to settle with the IRS before sending an amended return to Illinois. Illinois interest and penalties can compound while waiting for the IRS to respond.* It seems unfair to me, but Illinois doesn’t have the resources or expertise to determine the outcome of an IRS audit. One other advantage- Illinois has up to 23 years after sending out a Notice to collect. This is similar in other states as well.

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What's the Best Way to Make Tax Payments?

- 1. The best way to make payments is to have the IRS or IDOR directly deduct your payment from your checking account. My software is able to direct your payments electronically 99.9% of the time. This is the most reliable way to pay. You can also directly deduct your estimated payments through my software. That means no post office for certified mail, and no lost checks. The IRS or IDOR doesn't send a confirmation that the payments have been received, so check your bank statement.*
- 2. Both the IRS and IDOR allow you to make one-time payments through their websites. On the positive side, you can print out a confirmation, and you can make the payment up to the day of the deadline. On the negative side, the websites don't save a record of your payment and I need this to file your return. Record all payment information you make and provide them to me.*
- 3. If you have a pattern of balance due returns, or need to make estimated payments, both the IRS and IDOR allow you to set up a payment account. You make a current payment or set up a series of future payments through the EFTPS.gov account for the IRS, or MyTaxIllinois.illinois.gov websites. It is very important to keep a record of all your payments and provide them to me.*
- 4. The best comprehensive IRS site is **ID.me**. It can be a challenge to set up, and you need some technology skills, but once it's up and running it provides much more than just a payment platform. You can check if there are any outstanding notices, get an online transcript of your tax return, or initiate a POA for me. This option is even better than my online access.*
- 5. Years ago, when the post office was more reliable, your payment choices were easy- you mailed a check. How things have changed! If you're not worried about the post office losing your check, you're worried about the check being stolen, washed and reissued for a different payee and amount. If you have to use a paper check, only use one that you get back from the bank. Use a pen that minimizes potential alterations, and Always retain a copy.*

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So there you have it. Fortunately, technology has come to the rescue. We've progressed from low tech checks and the post office, to online platforms where you can access your information from the IRS. It's best to leverage Technology, and not write paper checks! I hope to send out an e-blast to give more information on how to make electronic payments.

So, What do you Do if You get a Tax Notice?

- *Please do NOT IGNORE Notices. You may only get ONE LETTER and the first may be the final notice.* Yet, the letters are often so vague and incomplete, it may be impossible to know what they want.
- *Send me a copy of ALL tax notices; Keep a copy for your records.*
- *Consult with me on how to respond;*
- *Be Patient.* The IRS may take a long time to respond to written communications.
- *You may, or may not receive a clarifying letter from the IRS. Please remember to send all IRS notification letters to me as you receive them.*

Document, Document, Document!

Get into the habit of looking at last year's tax return and organizer to see what tax info you provided in previous years. *We prepare your returns from the documents you provide.* So please save all of those letters that come to you labeled "**Important Tax Information**". Also save the folder I give you with your documents and the tax returns from previous years. *When asked how long to keep your returns, the answer is always "Forever!"*

Many of the issues I highlighted last year are still important but I'm not going to repeat them here. You can find my letter on the website: <http://www.villanocpa.com>. The "2021 client letter.pdf" is on the left side of the screen above the file folder on my website.

My Portal: ShareFile

My Client Portal system, "ShareFile" is the Best way for us to safely share sensitive financial or personal documents electronically. Files are password protected, and can only be accessed by you and me. It is very secure. My Portal meets the IRS requirement that accountants provide a "secure method of electronic communications." Never send sensitive information by e-mail. It is inherently insecure.

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*Please let me know if you want to set up ShareFile and I will send you an e-mail with an account name, password, and easy instructions. The last 3 years of tax returns are in your portal. The portal can simplify loan applications or mortgage refinancing. You don't need paper copies of returns - we give loan agents a temporary password to download your documents for 1 week. Lost paperwork is reduced. After a week, remind me to remove access to your portal. **I strongly encourage you to use ShareFile - It is more secure and thus safer than email.***

Price Increase and What You Can Do

I have always prided myself as providing high quality service at a lower cost. I have charged only a minimal amount for dealing with the IRS. This past year, we've been pushed to a limit we can no longer absorb. *The IRS sent out millions of tax notices in 2022. All of them must be addressed. Many of my clients received tax notices and my time dealing with IRS issues has multiplied exponentially. The Post Office increased their mailing rates twice in one year-- almost 10%. Software, supplies and it seems everything has gone up. It is no longer possible for me to absorb all of these costs.*

For the 2022 Tax Year, you will see a line item for Postal fees if we send out your returns by postal mail. Our preparation fee will also increase 10%.

Payment for Tax Preparation is due when you pick up your return. If we mail your return, please send us a check. It is a lot of extra work and time to resend invoices. We do not charge late payment fees as many businesses have. Please help us keep it that way.

Please use my Portal ShareFile. It will save you money. I highly encourage its use. Let me know if you need help.

Organizers, Engagement Letters & Extensions

3 Organizational Options to help you gather your tax data:

1. We have had great success with **Intuit link**. *It is easy to use, contains a Questionnaire, Engagement Letter, and an option to upload documents.* It will save you postage too and helps us consolidate your data.
2. Use our **e-organizer**. All that's needed is a basic knowledge of computers. One sore spot - this hasn't been adapted for Apple users. It also does not have a way to upload documents.

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3. We can **mail you a paper organizer, an engagement letter, and this letter.**

Organizers are expensive to mail, so we only send them upon request. We are happy to upload them to ShareFile.

If you are a *new client*, and want either a paper or electronic organizer, please let us know. **We encourage All clients, new and existing, to use ShareFile.**

Engagement Letters

We require a signed engagement letter. Please return this when you drop off your data or schedule an appointment. A signed engagement letter is required by the Illinois Accreditation Board. It is a legal letter to protect us both, as it is an agreement that identifies what you need to provide me, and what services I will perform. If you are mailing your information, please include the signed engagement letter. It is time consuming to have to re-send these out separately.

Extensions

*We do not automatically file extensions. I cannot stress this enough, I cannot prepare an extension for you if you do not contact me before **April 1st**. Extensions may require an estimated payment. An extension to file is not an extension to pay. Penalties on unpaid taxes can be significant.*

HIPPA and Direct Deposit Payment

If you ask me to forward any documents to a third party, you and your spouse if you are filing a joint return must sign a release prior to sending them out. This is a part of the HIPPA Privacy Act, just like at the doctor's office. Another perfect opportunity to use the Client Portal!

For Automatic Deposit of Refund or Electronic Payments, please verify all your direct deposit/electronic payment information including bank merger routing #s for electronic estimated payments. If your bank account has changed in any way, your refund or payment will be delayed.

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Eyeglass Collection

The office is a collection site for eyeglasses for Lions International. If you have old eyeglasses, Lions refurbishes and distributes them to needy people worldwide. Lions is the largest service organization in the world. If you are looking for a place to make a difference, please contact me about our chapter. Thank you for supporting this cause.

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